

IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: May 5, 2006

Subject: **Electric Reliability Organization (ERO) Developments – Update**

Information item

Background:

This document provides an update on the information presented at the March 22, 2006 Stakeholder Advisory Committee meeting on ERO developments.

ERO Application Process Update:

On April 4, 2006, North American Electric Reliability Council (NERC) applied to the Ontario, Alberta, Nova Scotia, the National Energy Board, and Federal Electric Reliability Commission (FERC) in the United States for recognition of NERC as the ERO for North America. A separate application was also submitted to obtain recognition of NERC's 102 reliability standards.

NERC filed a notice of filing as the ERO with the remaining provincial jurisdictions that do not currently recognize NERC's standards as mandatory and enforceable. In these other provinces, legislative changes are required to effect such a change.

We understand that the Ontario Energy Board (OEB) intends to acknowledge both of NERC's applications in a letter to NERC in which the OEB will state its priority to complete the OEB-NERC memorandum of understanding in the near future. The IESO is also sending a letter supporting NERC as the ERO for North America to the OEB with a copy to the Ontario Ministry of Energy, NERC, Northeast Power Coordinating Council (NPCC) and FERC. A secondary purpose of the letter was to ensure the parties, including FERC, are aware of today's mandatory compliance with NERC standards in Ontario and the importance of the international aspect of NERC's efforts. Finally, it is our understanding that the Ontario Ministry of Energy will officially recognize NERC as the ERO and its standards before the year's end pending completion of the OEB-NERC memorandum of understanding.



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In the United States, FERC has allowed a 30-day comment period on the ERO application that ends on May 4, 2006. A separate process for reviewing the reliability standards will also take place. This includes a FERC reliability standard technical conference expected this summer followed by FERC's Notice of Proposed Rulemaking (NOPR). This process will see FERC extensively review the 102 submitted reliability standards. FERC will either approve or remand the standards back to NERC.

Changes in Ontario:

In the previous Stakeholder Advisory Committee meeting, the IESO discussed its recommendation that the OEB take on the remand authority for proposed reliability standards along with the authority to hear an ERO sanction appeal by the IESO or a market participant. In subsequent discussions, we understand that OEB staff, in co-ordination with the Ministry of Energy staff, are now working to implement this approach.

Changes to NPCC:

The NPCC Executive Committee will vote on the proposal to create NPCC Inc. and NPCC Cross-Boarder Regional Entity (CBRE) on May 18th. NPCC Inc. will keep the existing functions of today's NPCC while NPCC CBRE will perform the ERO delegated (or US statutory) functions of standards development and compliance enforcement.

ERO Workshop:

In consideration of feedback from the Stakeholder Advisory Committee and the input from other market participants, the IESO will be holding an ERO workshop to update interested market participants. The workshop is planned for June pending confirmation of invited speakers from the Ministry of Energy, OEB, NERC and NPCC. The IESO will provide notice of the workshop date when presenter availability is finalized.